

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BAC3664 – ACCOUNTING THEORY

(All sections/ groups)

22 OCTOBER 2018

9.00a.m – 12.00p.m

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **2** pages excluding cover page with **4** questions.
2. Answer **ALL** questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

- a) The Committee on Terminology of the American Institute of Certified Public Accountants defined accounting as:

"the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and event which are in part at least, of a financial character and interpreting the results of thereof"

Based on the definition above, discuss how accounting may also play many other important roles. Discuss the following:

- i. Accounting as an economic goods.
- ii. Accounting is a magic.

(6 Marks)

- b) What is a conceptual framework, and would it be considered to be a positive or a normative theory of accounting? Explain.

(7 Marks)

- c) Discuss what is accounting postulates? Briefly explain **FOUR (4)** accounting postulates in financial accounting.

(12 Marks)

Total: 25 Marks

QUESTION 2

- a) Briefly outline the arguments in favour of regulatory practice in financial accounting. Provide **TWO (2)** theories to support your arguments.

(15 Marks)

- b) What would be the opponent views with respect to regulatory practice in financial accounting? Discuss from the free-market perspective.

(4 Marks)

- c) Discuss the role of following regulatory bodies in Malaysia:

- i. The Audit Oversight Board (AOB).
- ii. Malaysia Accounting Standard Board (MASB).
- iii. Companies Commission of Malaysia (CCM).

(6 Marks)

Total: 25 Marks

Continued.....

QUESTION 3

- a) Positive Accounting Theory (PAT) is concerned with explaining accounting practice by predicting which firms will, and which firm will not use a particular accounting practice. It is expected that managers will select accounting practices and voluntarily disclose information on the basis of what it means for them.
- i. Discuss the **TWO (2)** main perspectives of PAT. (5 Marks)
 - ii. Discuss with example the **THREE (3)** hypotheses developed to predict managers behaviour in selecting particular accounting practices according to PAT. (12 Marks)
- b) Relevance and reliability are considered to be the two fundamental characteristics of accounting information according to the conceptual framework of accounting. That is, in order for accounting information to be useful to the primary users of the financial statements, we say that it must have both of these attributes: relevance and reliability. Discuss the following:
- i. What is the difference between relevance and reliability? (3 Marks)
 - ii. The trade-off between relevance and reliability may sometimes be necessary in order to improve the usefulness of accounting information. Argue it. (5 Marks)

Total: 25 Marks**QUESTION 4**

- a) It is often argued that more informed choices between accounting and disclosures alternatives can be made if the impeded impacts on share prices are anticipated when making financial reporting decisions. Prior capital market research shows that there are many other factors that influence financial accounting and disclosure. Discuss the following:
- i. The earnings announcement of other firms in the same industry have information content. (5 Marks)
 - ii. The capital market impact of unexpected changes in earnings depends on whether the change is expected to be permanent or temporary. (5 Marks)
 - iii. The capital market impact of unexpected changes in earnings depends on whether the it is related to unexpected change in earnings or unexpected changes in expenses. (5 Marks)
- b) Discuss what motivates companies to increasingly report non-financial information such as social reporting, sustainability reporting and risk reporting. (10 Marks)

Total: 25 Marks**End of page.**